

IN RE:

WC DOCKET NO. 05-337
CC DOCKET NO. 96-45

On May 1, 2007, the federal-state Joint Board on Universal Service issued a Public Notice seeking comment on various proposals to reform the high cost universal service support mechanisms. In that notice, the Joint Board requests comment on: 1. reverse auctions; 2. GIS technology and network cost modeling; 3. disaggregation of support; 4. methodology for calculation of support for competitive ETCs and 5. use of universal service funding to promote broadband deployment.

#1406046

The core of an auction process is basic bidding. In a regular auction, you are seeking the highest bids to realize the maximum value for your good or service. A reverse auction seeks the lowest bid to receive a good or service. Universal service support, on the other hand, is not intended to set a price for the good or service. With the principle of universal service support the issue is one of rural-urban parity – a public policy decision designed to bring benefit to both urban and rural customers with a deeply penetrating network throughout the country that all can depend on, with comparable services and rates. It is generally recognized that the cost to provide communication services is greater in a rural, less densely populated area than it is in an urban setting. Universal service allows end to end connections of a ubiquitous ambiguous network, and attempts to smooth that price differential.

One may recall the criticisms of the health maintenance organization (HMO) system in the health care arena. The criticisms have been that lower expenditures are realized not by efficiencies but through limiting access to the services that are available and then limiting the services to those who remain eligible for service. If the goal of universal service is to ameliorate the given cost differential between urban and rural service, it appears that the only way that one could bid to reduce that differential is to limit those eligible to receive the service or to limit the services which will be received by eligible customers. This is wholly inconsistent with the very principle of universal service.

Another outcome of a bid process for which there would be a contract award is that it appears likely that the winner will only make investments to the extent that it could reasonably expect a return of and on that investment. There would be no incentive to

continue investing to provide upgraded communication services as the firm got later into the contract period. For those who are not winners of the auction the incentive to invest in modern plant would be materially diminished as they would have to recover the full investment through charges and would not be supported by universal support. Recovery of prior investment by the loser of the auction would be placed in serious jeopardy.

One of the hallmarks of an auction process is the presence of winners and losers. In an environment in which, at both federal and state levels, competition in the communications industry has been introduced and promoted, the granting of support to one provider would cover part of the cost of that provider and provide an economic advantage over any provider who was not receiving universal support and attempting to provide similar services. This result would be materially adverse to promoting competition in the industry. The competition should be in the marketplace for efficiency and innovation and quality in the provision of the communication service, not for the federal support.

In support of its opposition to reverse auctions, ITA supports the comments previously filed in this docket by OPASTCO and NTCA, including the OPASTCO Ex Parte of February 22, 2007. ITA further supports the position stated by Congressmen Terry, Boucher and Pickering in their letter to the Commission of April 10, 2007.

2. GIS Technology and network cost modeling. For smaller rural exchanges the sophisticated modeling has generally not been cost effective.

3. Disaggregation of support. The smaller companies have generally not pursued disaggregation of support because it has not been efficient or economically

beneficial. ITA does not believe the Commission should require rural carriers to utilize a model that many carriers have deemed disadvantageous or detrimental. While not perceiving a felt need, the ITA has no objection if the Commission decided to offer another opportunity to the rural carriers to reevaluate and reconsider disaggregation of support below the study area or wire center level.

4. Competitive ETC Support. The ITA is in full support of the proposition that the Commission replace the current identical support rule with the requirement that the competitive ETC demonstrate their own cost in order to receive support. No carrier should be receiving support which is not representative of its own costs. There should be a ceiling established, however, that a CETC cannot receive USF support in an amount greater than that which would be allowed to the ILEC in the exchange.

5. Broadband. The minimum level of service deemed to provide modern high quality communication services in all areas of the country should be incorporated into the definition of covered services under the universal service fund. To the extent that broadband is incorporated into the development of the fundamental network of an entire exchange, its cost should be explicitly allowable from USF support. ITA supports rules that would allow carriers to utilize universal service funding to build networks that can support rural users with the same broadband services that urban customers receive. The rural companies have continued to modernize their networks and equipment to provide high quality communication services with facilities which enable broadband services. The cost of those facilities should be allowable for USF support.

Respectfully Submitted,



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